

CIA/DER/IM 71-29 OVERVIEW BETWEEN E. & W. EUROPE  
CONF FEB 1971 01 OF 01

**Confidential**



**DIRECTORATE OF  
INTELLIGENCE**

# Intelligence Memorandum

*Cooperative Ventures Between Eastern Europe  
And The West: An Overview*

**DOCUMENT SERVICES BRANCH  
FILE COPY  
DO NOT DESTROY**

**Confidential**

ER IM 71-29  
February 1971

Copy No. 64

## WARNING

This document contains information affecting the national defense of the United States, within the meaning of Title 18, sections 793 and 794, of the US Code, as amended. Its transmission or revelation of its contents to or receipt by an unauthorized person is prohibited by law.

GROUP 1 Excluded from automatic downgrading and declassification
---

~~CONFIDENTIAL~~

CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence  
February 1971

INTELLIGENCE MEMORANDUM

Cooperative Ventures Between Eastern Europe  
And The West: An Overview

Introduction

The purpose of this memorandum is to examine joint ventures, especially production ventures, between Eastern Europe\* and the West. Investment by Western firms in Yugoslavia, the only country under consideration that now permits foreign investment, is also examined. This memorandum looks at East European reasons for pushing joint ventures and the degree of success realized in fulfilling these goals. Also, it examines the pros and cons of Western, including US, involvement in joint production ventures with Eastern Europe.

What is a Joint Venture?

1. The definition of a joint venture varies considerably from writer to writer. Some use the term loosely to include cooperation agreements that

*\* Throughout this memorandum the term Eastern Europe is used to refer only to Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Romania. Yugoslav joint ventures with the West are considered separately.*

*Note: This memorandum was prepared by the Office of Economic Research.*

~~CONFIDENTIAL~~

CONFIDENTIAL

are in essence little more than barter arrangements.\* Under this category would fall the Romanian-British agricultural produce-for-irrigation-equipment deal and the Soviet-West natural-gas-for-pipe transactions. Unless otherwise indicated, the term *joint venture* will be used in this memorandum more narrowly, to include production agreements in which one partner supplies the capital and entrepreneurship and the other partner provides the plant, labor, and raw materials; marketing arrangements that attach a Western trademark to Eastern goods or provide for their distribution through a Western sales network; joint shipping companies; and a series of tourist-related activities. In many cases not enough details are known to determine whether or not a given agreement is a joint venture under this definition.

### History

2. Since 1964, Eastern Europe has entered into about 200 joint ventures and other cooperative agreements with the West. Of these, Hungary -- by far the most active of all East European countries in this area -- is involved in more than one-half. During 1964-69, Hungarian industrial enterprises concluded about 100 (42 in 1969 alone) cooperation agreements of varying complexities with Western countries. More than one-half of these agreements reportedly were concluded in the machine building industry. The chemical industry accounted for the second largest share. In addition to industrial

---

\* *The Hungarians have defined cooperative agreements as including any combination of the following factors: (1) sales of licenses, patents, technical know-how; joint research and development projects; feed-back of resulting know-how; (2) product specialization on an international basis, sometimes referred to in terms of "international division of labor" (this can involve exchanges of materials, semi-manufactures and components, or even finished goods); (3) supply of plant machinery and equipment, as well as possible credit arrangements; and (4) marketing arrangements through mutual use of sales organizations in specified territories.*

CONFIDENTIAL

CONFIDENTIAL

production agreements, Hungary reportedly had by mid-1970 about 25 joint enterprises with the West for trade and marketing purposes. Yugoslavia is the only Communist European country that has so far permitted direct investment by the West.

3. The Western firms that have been most active in joint ventures are based in West Germany, France, Austria and Great Britain, and in the case of Yugoslavia, Italian firms lead the list. In October 1970, West German Minister for Economics Dr. Karl Schiller said that 21 West German firms had 26 cooperation agreements with Hungarian companies.

4. In most instances of industrial cooperation the Western partner has provided the capital, technology, and entrepreneurship, whereas the East European partner has supplied the plant, labor, and raw materials. In a few instances, the East Europeans have sold a license to a developed Western country. In 1966, for example, the Czechs and West Germans agreed to the construction in Bavaria of an assembly plant and service center for Skoda automobiles. In addition, joint ventures have been set up in which the East European and Western partners jointly construct a plant in a third country. For example, in August 1970 Skoda-Export of Czechoslovakia and Babcock-Atlantique of France signed a contract with the Algerian State Electricity and Gas Board to provide \$26 million worth of equipment for the construction of a thermal power station at Skikda in Algeria. Also, the East Europeans are providing capital within the framework of joint ventures to the less developed countries. The Czechs agreed in the spring of 1970 to supply almost two-thirds of the capital and provide machinery and marketing outlets for a tannery to be built in Uruguay under the auspices of a Czech-Uruguayan mixed company.

5. Activity and results in the area of joint ventures have so far been meager. The precise value of all joint venture agreements concluded between Eastern Europe and the West is not known, but the exchange of commodities involved has been small relative to total East-West trade. Since putting into effect in July 1967 the regulation permitting foreign investment, the Yugoslavs have attracted only \$40 million of Western capital.

CONFIDENTIAL

CONFIDENTIAL

The East Europeans have realized little of what they most desire from joint ventures -- advanced technology, capital, and increased opportunities for hard currency earnings.

What the East Europeans Want -- and What They Have Received

Advanced Technology

6. The East Europeans look to advanced technology rather than to changes in the economic structure for the stimulation of their economies. They particularly desire Western technology to develop their manufacturing industries, which account for the bulk of planned industrial growth. Licenses alone are often not enough, because the East Europeans are frequently unable to handle the technology they have received without technical assistance. They realize that in many cases they need not only the license but also the expertise and in some cases the machinery and equipment. The Poles, for example, purchased a license from the British about three years ago for computer line printers. Recently the Poles came back to the British for a complete technical assistance package on the printers. Western firms are hesitant to release their newest technology to possible competitors or to producers who may not be able to meet their standards of quality. Many, if not most, joint production ventures place the East Europeans in the position of subcontractors -- producing components for the Western firms. Thus the East Europeans' technological gains from the joint ventures entered into so far have been quite limited. The East Europeans will, however, continue to push these ventures because advanced technology is only obtainable from the West; with few exceptions it is not obtainable from the USSR. Some examples of joint production ventures in Eastern Europe and Yugoslavia are given in Appendix A.

Increased Hard Currency Exports

7. The East Europeans hope that by gaining Western technology and quality standards they can greatly increase their exports, especially of manufactures, to the developed West. (Often the item involved will bear a Western trademark or a joint

CONFIDENTIAL

CONFIDENTIAL

East European-Western trademark, which helps in the selling.) The Poles, for example, have expressed concern over the small share of machinery and equipment -- only 4% in 1969 -- in their total sales to Western Europe and feel that a substantial improvement in their trade relations with Western Europe can come about in part by expanding industrial cooperation between the Polish engineering industry and West European firms. The Poles also have expressed much greater interest in ventures involving production for sale to the West than in those involving sales to other Communist countries.

#### Advanced Marketing Facilities and Techniques

8. In most cases of joint production ventures in which the West agrees to take part of the product involved, the Western firm will either do the marketing itself or get another Western firm to market the item. In addition, a number of joint ventures have been established solely for marketing of East European goods in the West, and of Western goods in Eastern Europe (see Appendix B). These ventures, besides helping to promote sales of East European products, can also serve to familiarize East Europeans with Western marketing techniques.

9. It is difficult to determine the success of these ventures in increasing East European exports primarily because of the possible substitution effect. Thus, for example, a Western company that entered into an agreement with an East European country for marketing chemicals might replace part or all of the chemicals already purchased from that country with those imported under the joint venture.

#### Development of Tourism

10. Joint ventures involving tourism are one of the more attractive possibilities for the Western firms involved because they offer much greater assurance of hard currency earnings than do production ventures -- and thus greater assurance of repayment of investment. For the East Europeans, the development of tourism nets hard currency earnings without as large an investment or as much risk as would be entailed in a joint production venture. In addition, cooperation with the West in the construction of

CONFIDENTIAL



~~CONFIDENTIAL~~

hotels and service stations gives the East Europeans practical access to Western business methods. Of Western countries the United States, perhaps because of its superior expertise, has been most active in this area (see Appendix C).

#### Other Gains

11. In addition to advanced technology and increased hard currency earnings from exports to the West, the East Europeans may reap some of the following benefits from joint ventures: employment of unemployed or underemployed labor, training of labor, improved management techniques, and exports of plants to the less developed countries. Joint ventures with the West have provided the East Europeans with some gains -- but nothing spectacular -- in all of these areas. The East Europeans are pushing joint ventures with industrialized Western countries in third countries, presumably in order to make sales they could not otherwise conclude because they lack some of the technology for constructing the plant wanted.

#### Western Involvement -- Pros and Cons

12. Joint production ventures can help Western firms penetrate East European markets and may give them access to cheap and plentiful labor (except in East Germany and Czechoslovakia, where labor shortages exist). The availability of labor would permit the expansion of plant capacity which in some cases is limited in the West. Mr. Robert Stevenson, President of Ford International, stated in March 1970 that Ford was interested in cooperation with Eastern Europe and Yugoslavia in the truck-bus-auto field because of Ford's production difficulties in Western Europe resulting from manpower shortages and component supply problems. He claimed that Ford could have marketed 300,000 more units in 1969 if the company could have produced the vehicles.

13. The potential disadvantages of entering joint production agreements with Eastern Europe would, however, appear to be formidable. In addition to the usual difficulties of trading with Eastern Europe -- the slow decision-making process which results in dragged-out and costly negotiations, the limitation of not being able to deal directly with the East

~~CONFIDENTIAL~~

**CONFIDENTIAL**

European enterprises, and the increasing insistence of the East Europeans on barter deals -- the establishment of joint ventures in Eastern Europe creates problems connected with the protection of the Western firm's reputation, technology, and markets. Western companies hesitate to attach their trademark or accept for their own use products or components produced in plants over which they have little or no control and in which generally low quality standards exist.

14. Even if West European firms are permitted to invest in East European enterprises, they may not be able to gain as large a voice in management as they would consider essential. A major reason for Yugoslavia's failure to attract more capital from the West is the feeling of many Western businessmen that the amount of control over the funds invested is too limited to compensate for the risk involved. However, the old rules change. In January 1971, Polish authorities announced that they were willing to permit foreign firms to share in profit from sales of joint venture products in domestic markets. As a result, Kellogg (a US firm) announced its interest in discussing a cooperative venture to produce nitric fertilizer.

#### US Involvement -- Why?

15. The problems arising from joint production ventures in Eastern Europe appear greater to US domestic firms than to the firms of West European countries. This comparative disadvantage could explain why US involvement in joint ventures has been limited almost entirely to the tourist field. US firms appear to be more concerned than West European enterprises about the lack of control over production in Eastern Europe. For example, Mr. Robert Murphy, Chairman of Corning Glass International, indicated in September 1970 that Corning would not be "overly" interested in the type of joint venture proposed by the Romanians, under which Corning could participate in management and share revenues but could not share in ownership. According to Mr. Murphy, this would mean management responsibility without the authority derived from ownership. Representatives of Ford Motor Company also have expressed the desire for some form of

**CONFIDENTIAL**

**CONFIDENTIAL**

partnership in any joint venture with Eastern Europe. Ford wants to be able to exercise close quality control and to have some control over the size of the labor force in the East European plant. The joint venture could well be unprofitable if its operation is saddled with unnecessary and inefficient labor -- a common condition in both East European and Soviet plants.

16. US firms are also confronted with some problems not faced by West European business: public opinion against buying Communist goods, the unwillingness of US dockworkers to handle Communist goods, and the difficulties of conducting such supervision and control as is permitted from a great distance. None of these disadvantages is insoluble -- the Japanese, for example, are not put off by the distance factor -- but US business attitudes together with the above-mentioned disadvantages may well tend to discourage most US firms from getting involved. Most of the joint production ventures that are concluded will probably involve West European subsidiaries or affiliates of US firms and marketing in Western Europe rather than the United States. The discussions between Ford and Romania, for example, have centered on the possibility of Romania's producing components for Ford's plant in Cologne.

17. For the same reasons, US businessmen have been hesitant to put capital into Yugoslav enterprises. But substantially increased US investment in Yugoslav ventures is likely in the long run. The possibilities for sharing control and repatriating profits could become attractive and US opinion is more favorable to Yugoslavia than to the East European countries. The authority to grant government guarantees on US business investment in Yugoslavia and Eastern Europe, as requested by President Nixon, would also help overcome the economic risks involved.

#### Economic Reform and Joint Ventures

18. Hungary and East Germany are the only two of the six countries that have for several years permitted some enterprises to conduct their own foreign trade instead of working exclusively through state trading firms. On 1 January 1971, Poland

**CONFIDENTIAL**

CONFIDENTIAL

initiated a system that would give industrial combines and associations more control over their own trade activities. Romania also has given industrial associations greater foreign trade responsibilities. None of these countries, however, has loosened central controls sufficiently to permit widespread dealings of Western firms directly with the East European enterprises involved. Furthermore, as long as the major foreign trade goals continue to be handed down from the top, changes in the organization of foreign trade activities will not substantially affect East-West trade. Thus, the formation of joint ventures and the introduction of new technology will continue to be hampered by the unwillingness of East European management to take risks and by the relative inflexibility of centralized decision making.

19. The outlook for East-West joint production ventures would greatly improve if the East Europeans decided to permit some control by Western firms. So far, however, no East European country is following the Yugoslav example of trying to accommodate Western capital ventures with Western participation in management and partial withdrawal of profits. The Hungarians passed a law in July 1970 that permits a foreign legal entity or enterprise to join an economic partnership with Hungarian enterprises with the permission of the Hungarian Minister of Finance and on terms specified by him. So far, however, no Western company is known to have made an investment in Hungary. It is not known what the impact will be on potential Western investors of the Hungarian requirement that each investment transaction be examined individually by the Minister of Finance. The Romanians state that they do not intend to permit foreign ownership, but nevertheless they are studying the possibility.

Country Studies: Romania and Yugoslavia

Romania

20. Romania has been pushing joint ventures with Western firms since the early 1960s, but has not yet permitted direct investment by foreign firms. Romania has stressed that in joint projects -- whether tourist centers or industrial plants -- the property

CONFIDENTIAL

~~CONFIDENTIAL~~

must remain Romanian. The Romanians are, however, willing to be flexible in some matters such as management, quality control, and sharing of profits. And in order to attract the type of joint ventures they most want -- that is, those involving advanced technology -- the Romanians may be forced to allow foreign investment. If so, they almost certainly would insist on holding the majority share.

21. The value of Romanian joint production ventures -- in terms of imports of technology and machinery from the Western partner -- may now be larger than for any other East European country except Hungary. Perhaps the largest venture is the ten-year contract signed in 1969 with Maschinenfabrik Augsburg-Nuernberg A.G. (MAN) for licensing and co-operation in the production of trucks and buses in Romanian plants. The vehicles are to be equipped with engines by Saviem of France, which will be delivered by the French partner of MAN. The Romanians may receive as much as \$25 million worth of equipment under this contract.

22. The Romanians are especially interested in joint ventures that increase their export earnings, particularly from hard currency areas. The agreement with MAN, for example, will permit the Romanians to produce diesel trucks, which are easier to market than are the gasoline-engine trucks which now comprise Romania's total output. The Romanians also have set up at least two joint ventures which will result in exports to the Western partners as compensation for machinery and equipment purchased from these countries. As partial payment for the automobile plant purchased from Renault, Romania is producing gear boxes according to Renault specifications for the French Estafette vans. Another such venture is the cooperation protocol between the Romanian and British aircraft industries arising from the purchase of six jet airliners from the British Aircraft Corporation. Under a cooperation agreement with the Britten Norman firm, Romanian enterprises assemble Islander light transport aircraft from kits provided by the British firm and fly them back to Britten Norman.

23. The Romanians are interested in promoting joint production ventures with industrialized Western countries in third countries. According

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

to an agreement signed in 1967, Romania and France were to provide equipment and technical assistance for an Indian oil refinery at Haldia, West Bengal. For the most part, however, the Romanians have not met with success in persuading industrialized Western countries to join them in this type of venture. In 1968, for example, the Lummus Company of the United States refused to bid on a refinery in Iran because they were not prepared to assume the obligations under the required guarantees on the Romanian equipment to be used.

24. Another type of cooperative venture that interests the Romanians is the formation of joint companies in Western countries. In October 1969, they signed a small agreement with Chile to create a joint company to explore and develop Chilean copper and other mineral deposits. Investment in the first stage of the company was reported at \$200,000 with Romania providing 49% and the state mining enterprise of Chile supplying 51%.

25. Romania has established several cooperative marketing ventures in Western countries such as Arcode, a mixed company with the United Kingdom for marketing chemicals; Decofra and Sotecom with France for chemicals, textiles, machine tools, and industrial plant; Contichemie with West Germany for chemicals; Romital and Vitama with Italy for chemicals and machine tools; and Petra with the Netherlands for plant and equipment to be used in the oil industry.

26. Romanian attempts to establish joint ventures with the United States have generally failed. Only two joint venture agreements are known to have been implemented. One of these involved an agreement to bottle Pepsi-Cola for sale in Romania. The other is an arrangement with Intercontinental Hotels for the construction of a tourist hotel in Bucharest. This hotel is to be completed in 1971. In addition, Tower International, Inc., reportedly has agreed to construct four Holiday Inns in Romania. However, neither Ford nor Corning Glass has been willing to accept Romanian terms for joint ventures.

~~CONFIDENTIAL~~



**CONFIDENTIAL**Yugoslavia

27. In July 1967 a new Yugoslav regulation permitted foreign capital investment in Yugoslav enterprises. Since then, about 27 contracts involving more than \$63 million worth of foreign investment have been signed. About \$40 million of this total, involving about 15 contracts, has been from the West. Of this, \$30 million concerns the expansion of the Crvena Zastava automobile plant, in which FIAT has been involved since 1954. Under two separate contracts, one signed in 1968 and one in 1969, FIAT has invested \$22 million in the Zastava plant. In addition, the International Finance Corporation has agreed to invest \$8 million in the expansion of the Zastava plant. Most other transactions involve Western investments of well under \$1 million.

28. The establishment in early 1970 of the International Investment Corporation for Yugoslavia (IICY) should help promote Western investment. The IICY has a capitalization equivalent to \$12 million. Among the subscribers are ten Yugoslav banks, the International Finance Corporation of New York, and West German, British and Japanese banks.

29. The US firm Printing Developments International (PDI) has invested a small amount in a Yugoslav enterprise (see Appendix A). Negotiations for investment are in progress with several other US firms, including Ford and Union Carbide. Ford is considering the construction of a factory to produce agricultural tractors in Yugoslavia. Union Carbide is discussing with the Croatia factory the possibility of providing the Yugoslav plant with machinery and equipment for battery production intended for markets in other East European countries.

30. Yugoslav law permits investment by the foreign firm of up to 49% of the total capitalization of a venture. Profits are split according to the share of investment. In some cases transfers of funds to the foreign investor are made through transfers of hard currency, in other cases through Yugoslav exports. Until recently, the foreign partner had to reinvest at least 20% of its profits, but in January 1971 the Yugoslav Federal Assembly's commission on

**CONFIDENTIAL**

~~CONFIDENTIAL~~

currency reform passed amendments which will free the foreign partner of this obligation. Profits are taxed at a maximum rate of 35%, with lower rates applied if part of the profit is reinvested in Yugoslavia. Each joint enterprise is run by a business board on which the foreign partner is represented. Management rights vary from contract to contract although ultimate control rests with the Yugoslav partner. The obligations of the foreign partner also vary but can include training of Yugoslav personnel, marketing of output in hard currency areas, and supplying raw materials required in the unit's production process.

31. The amendments on the reinvestment requirement together with recent steps to clarify the foreign investor's right to repatriate all initial capital have removed some of the obstacles to foreign investment. However, several problems still confront Western firms considering investment in Yugoslavia. In addition to demanding guarantees on the repatriation of capital, Daimler-Benz-Mercedes has made the signing of a final contract with Fap-Famos of Belgrade contingent on the latter's providing a guarantee assuring a share of the profits in Deutschemarks and a clear agreement on compensation in the event of expropriation. Other major problems are the Yugoslav tax on profits and the limited control over production thus far permitted the foreign investor. Moreover, the Yugoslav economy has been highly unstable, causing the government to repeatedly step in with controls on prices, imports, and credits for investment and consumption. At least two US companies, Smith-Corona and Kaiser Aluminum, have backed out of joint ventures after lengthy negotiations with Yugoslav companies.

#### Prospects

32. In spite of the disappointing results to date, Hungary, Poland, Romania, and Yugoslavia plan to continue to push joint ventures with the West. Bulgaria does not appear to be eager to promote such ventures. Czechoslovakia has not encouraged joint ventures with the West since August 1968 and East Germany never encouraged them. Western interest appears to continue and may increase.

~~CONFIDENTIAL~~



~~CONFIDENTIAL~~

A number of long-term trade agreements between Eastern Europe and the West contain pledges to promote cooperation ventures. The West German agreements with Czechoslovakia, Hungary, and Poland state that deliveries from joint companies will benefit from reciprocal tariff and other concessions and will be exempt from quantitative restrictions. The Romanian long-term agreement with the Benelux countries contains an agreement to expand research into and the formation of joint ventures aimed at exploiting third markets, as well as the promotion of tourism in Romania. To the latter end, the Benelux countries are to provide technical assistance such as advice on catering and on hotel management.

33. An example of the intentions to promote joint ventures is the new mixed company -- EURCO -- formed by Hungary and France. Five French companies of the Pechiney Group together with the Banque de Paris et des Pay-Bas have joined with six Hungarian enterprises and the Hungarian Foreign Trade Bank to form this company. The initial capitalization of this company, which started operations in Paris on 1 September 1970, was 750,000 French francs held equally by the French and Hungarian shareholders. The major aim of the company is to promote Hungarian-French cooperation in constructing plants in and selling exports to third countries.

34. Joint ventures between Eastern Europe and the West probably will gain rapidly in importance over the next few years. The outlook for cooperation in tourism is particularly good. Holiday Inn, for example, plans to build 36 inns throughout Eastern Europe (including Yugoslavia) over the next ten years in cooperation with Tower International, Inc., and Occidental Petroleum Corporation. Prospects for production cooperation in technologically advanced fields, however, are not so bright because of the low level of East European techniques, inherent difficulties in dealing with East European firms (including the slow decision-making process), the fear of many East Europeans to take the risks involved in entering joint ventures, and the unwillingness of East European countries to give any significant amount of control to the Western firm. *Zycie Warszawy*, in the 14 and 15 October 1970 issues, criticized Polish enterprises which had turned down

~~CONFIDENTIAL~~

CONFIDENTIAL

opportunities for industrial cooperation. Part of the problem, it was noted, is that the risk fund is not sufficient and that the enterprise plan allows no leeway for taking on new unexpected projects. The author, Henry K. Chadzynski, also said, "Perhaps in some justifiable cases, as some specialists maintain, it would be possible to give coproduction activities the form of companies along the lines of common shares in capital outlays, risk, and profits. This would make it possible to couple common production and technological policies closely with a uniform trade policy and thus to avoid many conflicts."

35. Many Western firms, such as Ford, do not wish to become involved in production ventures in Eastern Europe unless they can arrange for a partnership with some degree of control and a share of the profits. If any East European country does decide to permit some control by Western firms -- even on a minority basis -- the outlook for joint ventures in that country will greatly improve. But, as evidenced by the Yugoslav case, just permitting foreign investment is not enough. The Yugoslavs themselves will have to loosen their regulations considerably in order to attract the amount of capital and quality of technology they desire from the West.

Conclusions

36. The major benefits the East Europeans hope to glean from joint ventures with Western firms are advanced technology and increased hard currency exports. Of secondary importance are the employment of labor, training for both labor and management, and exports to less developed countries. East European gains from joint ventures have so far been meager.

37. The major potential advantages which could accrue to a Western firm participating in a joint production venture in Eastern Europe are access to additional labor (possibly at lower wage costs), an expansion of capacity (which may be limited in the West), and improved access to East European

CONFIDENTIAL

**CONFIDENTIAL**

markets. However, there are also significant disadvantages, which have held back the development of joint ventures. Regular commercial trade itself is difficult -- the slow decision-making process which makes for long and costly negotiations, the inability to deal directly with East European enterprises, and the increasing insistence of the East Europeans on barter arrangements. The Western company that enters into a joint production venture in Eastern Europe faces not only the traditional difficulties but also those connected with the protection of the firm's quality reputation, technology, and markets. US firms are more hesitant than West European firms to engage in joint production ventures.

38. The outlook for East-West joint production ventures would greatly improve if the East Europeans were willing to allow a meaningful measure of control by Western firms. So far, no East European country has followed the Yugoslav example of permitting Western investment with Western participation in management and partial withdrawal of profits. Hungary has passed a law permitting foreign firms to form a partnership with a Hungarian enterprise with the approval of the Minister of Finance; the impact of this requirement on potential Western investors is unknown. Yugoslavia, somewhat disappointed at the small inflow of Western capital, has recently decided to repeal the requirement that foreign firms reinvest 20% of their profits. This decision could be beneficial, but the Yugoslavs will have to loosen their regulations further if they are to achieve a significant increase in the volume of Western capital and desired technology.

39. Soviet reactions to East European efforts to improve economic relations with the West remain mixed. In some cases, Moscow encourages East European countries to "test the water", in others they draw the line. Most recently, Czechoslovakia has overcome the strain in its relations with the West caused by the Soviet invasion of 1968. Once again, the Czechs are expanding trade contacts and seeking Western technology, probably with Soviet blessing. In the longer run, it seems probable that East European joint ventures with the West will increase in numbers and economic importance. Both sides -- East and West -- will have to compromise

**CONFIDENTIAL**

CONFIDENTIAL

long-held views with respect to the institutional arrangements under which these ventures are carried out. Government measures to protect US risk capital seem likely to eliminate one major obstacle. And in the thorny area of control of the joint enterprise, major Western manufacturers will need to have reasonable assurances of cost and quality control over the product adequate to make the venture viable. If such compromises cannot be reached, joint ventures are more likely to remain as exceptions in the production process rather than become standard arrangements. However, there are many signs that the East Europeans will change the rules of the game, reflecting the importance they attach to Western technology.

CONFIDENTIAL

## APPENDIX A

Some Examples of East-West Cooperative Production Ventures <sup>a/</sup>

<u>Date <sup>b/</sup></u>	<u>Communist Country</u>	<u>Western Country</u>	<u>Description</u>
1969	Czechoslovakia	West Germany	Deutsche Babcock and Wilcox announced the signing of a seven-year cooperation agreement with the Slovak boiler makers, Slovenske Energeticke Strojarne. The aim is the joint production and marketing of large boiler installations with a steam output of over 700 tons an hour. Babcock and Wilcox will undertake part of each contract secured by the two partners in Czechoslovakia and in third countries.
1970	East Germany	Japan	The East German machine tool works of Aschersleben concluded an agreement with the Japanese firm Sumitomo Shoji and the machinery plant Hozumi Kinzoku Kogyo whereby East German machine tools will be equipped with electrical and hydraulic units of the Japanese firm and marketed in Japan and in third countries.
1970	Hungary	Austria	Under an agreement between the Austrian Steyr-Daimler-Puch Company and the Hungarian Ikarus motor plant and the Hungarian State Foreign Trade Agency, Steyr and Ikarus will jointly manufacture large buses to be marketed under the brand name of "Steyr-Ikarus." The Austrian side is to provide motors and frames and the buses are to be assembled by the Hungarian plant. This deal is a broadening of a cooperation agreement concluded in 1969.
1970	Hungary	Switzerland	The Swiss Sandoz Pharmaceutical Company and the Hungarian United Pharmaceuticals and Nutriment Manufacturing Company have signed a cooperation agreement for the manufacture and distribution of certain pharmaceuticals. Over a three-year period, the Swiss firm will deliver finished basic materials from which the Hungarian company will manufacture tablets, pills, suppositories, and injections. In 1973 the Hungarians will receive a license to manufacture the basic material. The Swiss company is to take some Hungarian preparations for manufacture and distribution.
1970	Hungary	United Kingdom and United States	Transelektro of Hungary signed a ten-year agreement with Clark Equipment, a British subsidiary of a US firm, whereby the Jaszbereny Refrigerator Works of Hungary will produce storage and vending counters under a Clark license. The agreement includes exclusive rights to market the counters in other Communist countries. In addition, Clark will handle the marketing of the counters in the West. Payment for the license is to be in the form of products, including components for foreign partners of Clark. Details of any improvements made to the counters are to be passed on to the Hungarian firm.

CONFIDENTIAL

CONFIDENTIAL

Date <sup>b/</sup>	Communist Country	Western Country	Description
1968 and 1970	Romania	France	The Pitesti automobile plant produces 40,000 gearboxes a year for the French-produced Renault Estafette utility van. The second agreement, which covers 1971-73, calls for the Romanians to increase their deliveries of components. In 1972, the Romanians will begin to export front and rear axles for the Estafette van.
1968	Romania	Italy	Joint manufacture of electric generating sets. The Romanian partner, Masinexport, supplies the generators, and the Italian firm Isotta Fraschini provides the diesel engines, transmissions, and control panels for automated operation.
1968	Romania	United Kingdom	The Britten Norman firm provides two Romanian enterprises with kits of parts for the Islander light transport aircraft. The Romanians assemble the aircraft and then fly them back to the British firm. Under this contract, the Romanians are to build a total of 1,000 Islanders at a rate of 50 a year. The first eight Islanders were completed in 1969.
1969	Romania	West Germany	Cooperation in truck and bus production. West German partner Maschinenfabrik Augsburg-Muennberg (MAN) will supply technology, name, and some parts; Romania will construct the vehicles, which will bear a joint trademark. Diesel engines for the vehicles are to be provided by Saviem of France. Deliveries to Romania may be as much as \$25 million, of which about one-fourth is to come from Saviem. Partial production is to begin in 1971 and full production should start in 1972. Part of the output is to be exported.
1970	Romania	France	The Romanian trade enterprise Technoimport has signed an agreement with the French company Societe Nationale Industrielle Aerospatiale (SNIAS) for the joint manufacture in Romania of Alouette-III helicopters. In addition, the Romanians will manufacture parts for the French production line of the Alouette-III. In 1973 the Romanians reportedly are to begin the manufacture of a more powerful twin-engine helicopter, the Puma SA-330. The Puma was designed by the French in cooperation with Britain's Westland Aircraft Company.
1968 and 1969	Yugoslavia	Italy	Two joint investment agreements between the Crvena Zastava automobile plant in Kragujevac and FIAT for expansion of the Zastava plant. The latter invested \$5 million (11% of the total investment) under the first contract and \$17 million (27% of the total) under the second contract. In addition, the International Finance Corporation has agreed to invest \$8 million.
1968	Yugoslavia	Italy	Joint investment agreement between the lead and aluminum products factory of Zagreb and Tubificio Ligure SPA of Italy for a plant at the Yugoslav factory to manufacture aerosol spray containers and aluminum cans. Under the 15-year agreement the Italian firm is to provide technological information and \$152,000 in capital (30% of the total investment).
1968	Yugoslavia	United Kingdom and United States	The Belgrade Printing Works (BGZ) and the London office of Printing Developments International (PDI) of New York, a subsidiary of Time, Inc., created a separate entity called "Studio PDI-BGZ" under a joint investment agreement. As lessor of a "Scanner-PDI" Machine, PDI of New York is an outside third party to the agreement. PDI has invested \$159,000, which is 49% of the total investment.

CONFIDENTIAL

- 20 -

CONFIDENTIAL

<u>Date</u> <sup>b/</sup>	<u>Communist Country</u>	<u>Western Country</u>	<u>Description</u>
1969	Yugoslavia	West Germany	Tovarna Automobilov v Mariboru (TAM) concluded another agreement with Deutz. Under the ten-year arrangement Deutz will provide \$2 million toward the expansion and modernization of the TAM works in Maribor. TAM has manufactured trucks and buses under a Deutz license since the late 1950s.
1969	Yugoslavia	Sweden	Joint investment agreement between UNIS of Sarajevo and SKF of Sweden for construction of a ball-bearing plant. SKF investment is \$3 million -- that is, 23% of the total investment. SKF is to market 20% of the plant output. Construction began in July 1970.

a. For a more complete list of earlier agreements see ES IV 22-27, East-West Cooperative Ventures, July 1969, CONFIDENTIAL/  
 b. Date the agreement was concluded.

## APPENDIX B

Selected East-West Joint Trading Companies and Marketing Arrangements

<u>Date</u> <sup>a/</sup>	<u>Communist Country</u>	<u>Western Country</u>	<u>Description</u>
1966 <sup>b/</sup>	Bulgaria	Netherlands	Joint trade company, held 55% by Machinexport of Bulgaria and 45% by the Dutch firm Maringson Mij NV. Except for sale of Dutch machinery in Bulgaria, the firm's activities are restricted to Western Europe. Profits are divided equally.
1967	Bulgaria	France	Joint company Sofbim to promote sales of Bulgarian equipment in France. Shares of the Paris-based firm are divided 50-50 between Bulgarian and French interests.
1969	Bulgaria	Japan	Bulgarian Iron and Steel Export Corporation bought an interest in the Japanese firm Nichibu. Under joint Bulgarian-Japanese management, the firm will trade in iron and steel and in machinery for the iron and steel industry, primarily between Bulgaria and Japan.
1964	Czechoslovakia	United States	US firm Simmons receives metalworking machinery from Czech partner Skoda. After slight modification the machines are marketed under Simmons trademark and through Simmons outlets.
1969	Czechoslovakia	Italy	Joint trading company Mez Italiana markets Czech products, mainly electric motors, in Italy. The Milan-based company is held 51% by Czech interests and 49% by Italian interests.
1969	Hungary	France	Joint trading company Technotrans, based in France, to promote sales of Hungarian goods in France, mainly machine tools and electric motors. The partners will also cooperate in looking for products needed by Hungarian industry. Ownership is 60% French and 40% Hungarian.
1970	Hungary	Spain	A joint company for the marketing of Hungarian textiles and clothing was formed between Hungarotex of Hungary and Intertextil of Spain. The new joint company is called Hungarotex-Espanola S.A.
1965 <sup>b/</sup>	Poland	West Germany	Joint trading company, Deploma, based in West Germany, to promote trade in heavy machinery between Poland and West Germany. Ownership is 55% Polish and 45% West German.
1968 <sup>b/</sup>	Poland	Netherlands	Joint trading company International Production Handelsmaatschappij Calarada, based in Amsterdam, imports and exports agricultural and industrial products. Emphasis is on Polish exports.
1968	Romania	West Germany	Joint trading company to promote trade in chemical and pharmaceutical products between the two countries. Partners in the West German-based company are the West German firm Chemie Handelskontor and Romania's Chimimport.

a. Date the agreement was concluded, unless otherwise indicated.  
b. First noted.

CONFIDENTIAL

- 23 -

CONFIDENTIAL



## APPENDIX C

Other East-West Ventures

<u>Date</u> <sup>a/</sup>	<u>Communist Country</u>	<u>Western Country</u>	<u>Description</u>
1967	Czechoslovakia	United States	Agreement providing for Tower International, Inc., of the United States to provide capital and know-how in construction of a tourist hotel in Czechoslovakia.
1966	Hungary	United States	Agreement with Tower International, Inc., on building a hotel in Hungary. Hungary is to provide the site and some capital; Tower is to provide advisers and capital and to receive a percentage of gross receipts over a period of years.
1969 <sup>b/</sup>	Hungary	United States and Netherlands	Shell Oil Co. will help construct Shell gasoline stations in Hungary (ten initially) and will supply management, advice, and Western goods and parts. Hungarian agencies will own the stations.
1968 <sup>b/</sup>	Romania	United States	Cooperation with Intercontinental Hotels of the United States in construction of a tourist hotel in Romania.

a. *Date the agreement was concluded, unless otherwise indicated.*  
b. *First noted.*

CONFIDENTIAL

- 25 -

CONFIDENTIAL